

Your VESTED

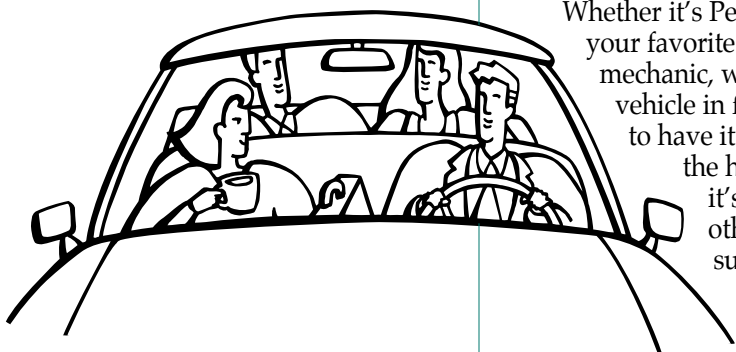


INTEREST

North Dakota State Investment Board

August 2000

A TUNE-UP & A REALIGNMENT



Whether it's Pep Boys, Sears, or your favorite neighborhood mechanic, we all wheel our vehicle in from time to time to have it checked under the hood. Sometimes it's a spark plug, and other times it's more substantial. Either way, when we drive out, we expect the machine to be tightened up to successfully take on the next few bumps in the road. Same thing with a pension fund.

Pension funds such as the Public Employees Retirement System (PERS) and the Teachers' Fund for Retirement (TFFR) are large pools of money invested to meet the needs of current and future beneficiaries. There, we said it – pension funds have assets and liabilities. Assets are the measure of how much you've got; liabilities are how much you do and will owe.

On a regular basis, the driver of these pension vehicles needs to motor into their financial mechanic (actuary) and take a look under the hood. Typically, this occurs every five years, with intermittent check-ups. Among other things, the Board and staff overseeing the pension plan look at the investments to see if they are proportioned in a manner that will reasonably meet the future needs of the pension plan. As the markets

change and the outlook for future liabilities shifts, adjustments need to be made to keep the engine purring.

Lets start with asset allocation. Asset allocation is simply the mix of investments used in the portfolio – some percentage in stocks, some percentage in bonds, some percentage in real estate, etc. Simple enough.

TFFR and PERS recently visited their respective wrenches (actuarial firms) and came out with a new sound to the engine, set to go into the next few curves on the investment super-highway. The table below reflects the changes that were made and implemented in the portfolios effective August 1, 2000.

ASSET ALLOCATION AS OF AUGUST 1, 2000

ASSET CLASS	PERS		TFFR	
	Previous	New	Previous	New
Domestic Equities				
Large Cap	33%	30%	25%	30%
Domestic Equities				
Small Cap	8%	8%	10%	10%
International Equities	8%	8%	15%	20%
Emerging Markets Equities	3%	5%	5%	5%
Venture Capital/ Alt. Invest.	3%	5%	5%	5%
Domestic Fixed Income	34%	28%	18%	7%
High Yield Bonds	2%	5%	5%	7%
International Fixed Income	4%	5%	5%	5%
Real Estate	5%	5%	10%	9%
Cash Equivalents	0%	1%	2%	2%

PERS: THE TUNE-UP

As your eyes drift across the columns representing the percentage exposures to each of the asset classes, one thing becomes clear: the numbers don't change much from previous to new. Notice that cash equivalents, or

(continued inside)



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Teachers' Fund for Retirement
State Investment Board

State Investment Board

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Lt. Governor Rosemarie Myrdal,
Robert Olheiser, Glenn Pomeroy,
Howard Sage, Norman Stuhlmiller.

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Steve Cochran, CFA
Executive Director/CIO

FROM THE DIRECTOR'S CHAIR

EVEN STOCKS DESERVE A REST

Domestic Equity – Large Cap! Our largest asset class. The stocks of BIG U.S. companies. Portfolio darlings!

Well, we all knew it would happen; payback that is. The good news is, payback was nowhere near as bad as the saying says it gets! Not this time, at least.

For the fiscal year ended June 30, 2000, this investment class was, well, lackluster. For the year, our managers turned in an aggregate performance of 1.3 percent. No typo. The S&P 500 Index itself was up only 7.2 percent. Yeah, we gave some ground to it, but the Board has been busy rectifying that situation (a great story for another day). Meanwhile, we are looking at our 1.3 percent and realizing that stocks aren't always the key to the kingdom.

By now, you have probably checked out the fiscal year performance charts for the PERS and TFFR funds and noticed that again this year,

HISTORICAL PERFORMANCE

SIB Pension Trust

Domestic Equity – Large Cap

FY00	+1.3%
FY99	+19.5%
FY98	+29.2%
FY97	+30.4%
FY96	+25.3%

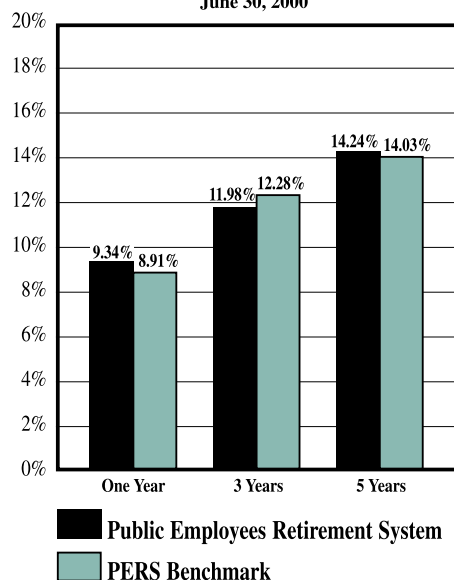
both funds have returned more than 8 percent, an actuarial target that keeps the funding equation in nice balance. So that's good news; real good news when you consider what could have been. But how do you stay in the ball game when your star player is all but on the bench?

Announcing the fiscal year 1999-2000 all-stars: International Equity (+26.2 percent), Emerging Market Equity (+26.4 percent), and Private Equity, once known as 'Venture Capital' (+48.8 percent). Making the second team were Domestic Fixed Income (+11.0 percent vs. 4.6

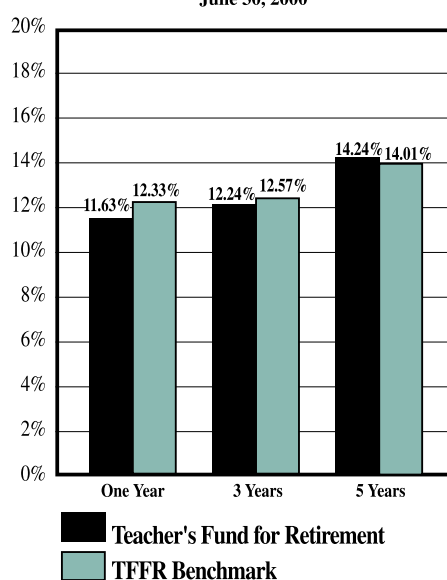
percent for the benchmark index for bonds) and Real Estate (+10.9 percent). Together, these guys picked up their wounded Domestic Equity – Large Cap buddy and carried the team to actuarial victory!

Now, this would make a great set-up for the old "diversification – don't put all your eggs in one basket" speech, but I will refrain. You're welcome! It's just good to know that the world is not one dimensional and salvation comes in many forms! Ok, I'm done.

INVESTMENT PERFORMANCE SUMMARY – PERS June 30, 2000



INVESTMENT PERFORMANCE SUMMARY – TFFR June 30, 2000



TUNE-UP *(continued from cover)*

readily liquid assets, have increased from 0 to 1 percent. This assures that cash is available for all disbursements without having to sell off investments. Another observation is that all of the other asset classes have at least 5 percent of the portfolio invested in them. This improves diversification (the spreading out of risk) and allows each of the asset class exposures to make a measurable impact on total fund performance. To add one percent here and two percent there, the money has to come from somewhere. Domestic Equities - Large Cap (stock in big U.S. companies) contributed 3 percent and Domestic Fixed Income (U.S. bonds) ponied up an additional

6 percent. A simple tune-up and we are on our way.

TFFR: THE REALIGNMENT

Okay, you drop off the hot rod and find out it may take a little more than a few new titanium sparks plugs. In the case of TFFR, it wasn't a matter of fixing something that was broken, but rather a matter of installing modifications for taking on some new roads ahead. A stiffer suspension, fatter tires, a souped-up engine. The result is reflected in the significant changes to the asset allocation. Domestic Equities - Large Cap has been boosted 5 percent, as has International Equities (non-U.S. stocks). High Yield Bonds has been

increased by 2 percent. Fueling these changes are reductions in Domestic Fixed Income (reduced by 11 percent) and a 1 percent trim to Real Estate. This new look is designed to meet the actuarial needs of TFFR as we face a likely future of declining school enrollments and reductions in the teacher workforce.

THANK YOU, ROSEMARIE!

A very special thanks to Lt. Governor Rosemarie Myrdal who served as State Investment Board Chair for 7 1/2 years. The Lt. Governor stepped aside in July to make room for new officers to carry the Board's work into the next calendar year. Under her leadership, the assets under management by the SIB grew from \$1.6 billion to \$3.7 billion, an increase of 131 percent. Clients served by the Board increased from 13 to 18. Among the many achievements during her tenure, the SIB adopted the Carver model of governance that has resulted in a very positive and cooperative work environment for Board and staff.



*Lt. Governor
Rosemarie Myrdal*

SIB ELECTS NEW SLATE



Dr. Mark Sanford



Howard Sage



Norm Stuhlmiller

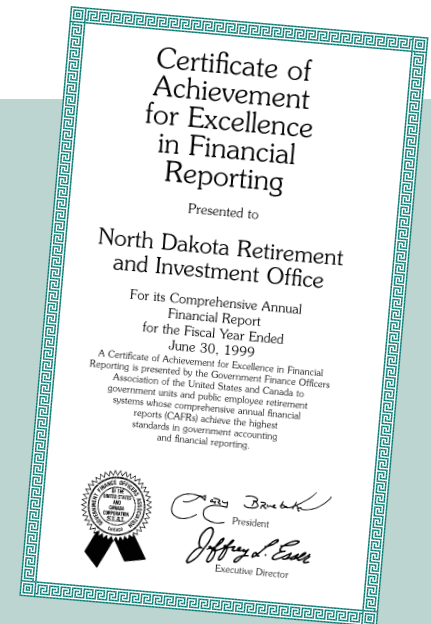
The State Investment Board (SIB) recently held its annual election of officers. By unanimous vote, the SIB chose the following members to hold leadership positions for the 2000-2001 fiscal year:

Chairman – Dr. Mark Sanford

Vice-Chair – Mr. Howard Sage

Parliamentarian – Mr. Norm Stuhlmiller

Congratulations!



RIO RECEIVES ACHIEVEMENT AWARD

The ND Retirement and Investment Office (RIO) is pleased to announce that its Comprehensive Annual Financial Report (CAFR) for June 30, 1999 has qualified for a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). This is the second year RIO has received this award.

The Certificate of Achievement is the highest form of recognition in public employee retirement system accounting and financial reporting, and its attainment represents a significant accomplishment.



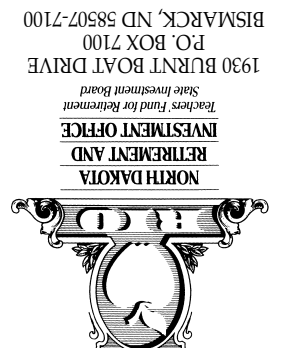
*Pictured, left to right, back row:
Daryl Splichal, Norm Stuhlmiller, David Gunkel.
Front row: Kathi Gilmore, Korrine Lang*

SIB AUDIT COMMITTEE REAPPOINTED

The SIB's only standing committee, the Audit Committee, was featured in the previous edition of this newsletter. We are pleased to report that each of the five members of the Committee has agreed to serve again and were reappointed in July.

The Audit Committee consists of five members – three from the SIB and two independent participants. Current members include Norm Stuhlmiller representing the Teachers' Fund for Retirement, David Gunkel representing the Public Employees Retirement System, and State Treasurer Kathi Gilmore representing elected and appointed officials. Korrine Lang, a Certified Public Accountant with Job Service North Dakota and Daryl Splichal, a Certified Internal Auditor with MDU Resources Group, Inc., serve as the independent participants on the Committee.

Thank you for your service to the State Investment Board!



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